Subject: CCA Reflects: DTLA Vacancy Rate – January 2018
From: Central City Association <toh@ccala.org>
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To: <ngriffin@downtownla.com>

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CCA Reflects is a monthly series where we share our insights on what is happening in DTLA and the region. This is our first piece of the series.

Swings in Downtown Vacancy Rate Hold Lessons for the Entire Region

By Jessica Lall, President & CEO, Central City Association

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Last September, real estate company CoStar reported that the vacancy rate for rental housing in Downtown Los Angeles had hit 12.4%, its highest point in 17 years. Questions quickly arose about the future of housing development: Was Downtown overbuilt? Was demand leveling off? Were we building housing for the right people, at the right income levels? What did this mean for the rest of the city?

Just four months later, the vacancy rate has declined to 10.3%, even as hundreds more units opened in Downtown. These swings in the housing market may put some on edge — stirring up concerns ranging from gentrification to a cooling economy — but they can also be instructive. Below are four lessons that Central City Association has learned from these vacancy reports and our long history of advocating for Downtown employers, residents, and visitors.

First lesson: In a geographically small, rapidly urbanizing neighborhood like Downtown, large swings in the vacancy rate are to be expected. The DTLA submarket includes less than 15,000 four- and five-star rental units, meaning that opening a single 500-unit building can temporarily spike the vacancy rate by more than 3%. Four 500+ unit buildings will open Downtown in 2018 alone, and nearly 6,000 units will open this year in total.

Since 2014 the vacancy rate for four- and five-star rentals has ricocheted repeatedly between a low of 6% and a high of 16%, first rising as new units came online, then dropping as residents began to lease and move in, then climbing again as more rentals were completed, and so on. Buildings over a year old, which have had enough time to fully lease up, would be a more stable measure of the housing market. For those units, the vacancy rate is just 4.7% according to CoStar, nearly the same as the citywide average.

Second, vacancies mean that property owners must compete more fiercely to win a tenant's business. The expected result is exactly what Downtown has seen in recent months: stabilizing rents in existing apartments, and incentives like free parking and a month of free rent in new buildings. In a city where rent

growth has outpaced wage growth for far too long, this is a step in the right direction.

The third takeaway is that whether the vacancy rate is high or low, we should always be looking for innovative ways to address our city's housing needs. We must build new and diverse types of housing that are affordable to the full spectrum of Angelenos, from single community college students to retirees, and from homeless individuals to families with children.

To do so, we should allow for housing types like micro-units and co-living, and eliminate out-of-date rules like those that require large average unit sizes in renovated buildings, effectively shutting out less affluent residents from living there. We should ensure that newer typologies such as live/work housing can be built affordably for middle-class renters and buyers. The city should eliminate parking requirements in accessible communities like Downtown, reducing the cost of new housing and allowing more Angelenos to live close to high-quality transit. And we should continue to invest in affordable housing and approve the Permanent Supportive Housing ordinance to expedite the creation of homes for our most vulnerable residents.

The final lesson is perhaps the most important: Housing L.A.'s residents must be a responsibility that we share with neighborhoods across the city. Although Downtown is uniquely welcoming of new residents and businesses and should continue to be the city's center for growth, it can't solve the region's housing crisis on its own. Since 1999 Downtown has accommodated 20% of the city's growth on just 1% of its land, and we are forecasted to add 125,000 additional residents over the next 20 years. In addition, nearly one-third of Downtown's housing stock is restricted to low income residents. Every community needs to pitch in and do its part to increase housing for people at all income levels.

Vacancy rates are lowest in the nation's most expensive cities — places like San Francisco, New York, Boston and yes, Los Angeles too, despite the ups and downs of Downtown's local market. Meanwhile, places like Miami, Charlotte, and Dallas sustain consistently higher vacancy rates and dramatically more affordable homes. They do so by building housing in large numbers, not only in diverse forms but also across wide geographies. Los Angeles must find ways to do the same to continue to be a world-class city that is welcoming to all.

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Enhancing DTLA's vibrancy and increasing investment in the region